

CLAIBORNE INDUSTRIES LIMITED

Annual Report 1978



Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Clai0422_1978

Claiborne Industries Limited

AUDITORS' REPORT

To the Shareholders of
Claiborne Industries Limited

We have examined the consolidated balance sheet of Claiborne Industries Limited as at September 30, 1978 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The company is involved in the following legal proceedings the outcome of which cannot presently be determined.

- (a) As described in note 2(a), the realization of the unrecovered Advances to former shareholders and companies related to them of \$824,291 is dependent upon the outcome of a legal action or upon such further proceeds as are derived from the liquidation of the security on the Advances.
- (b) As described in note 2(b), Series B debentures which are stated to mature April 1, 1979 are the subject of a legal action.
- (c) As described in note 2(c), a subsidiary's Series A debentures are the subject of a claim by their holders and counterclaim by the company.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the legal proceedings referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 13, 1979

THORNE RIDDELL & CO.
Chartered Accountants

Claiborne Industries Limited
(Incorporated under the Laws of Canada)

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1978

ASSETS

	1978	1977
CURRENT ASSETS		
Cash		\$ 7,329
Accounts receivable, net of allowance for doubtful accounts of \$85,000; \$684,172 in 1977	\$1,513,417	1,380,052
Advances, subsequently recovered	379,879	
Inventories, at the lower of cost and net realizable value	1,749,583	1,608,489
Prepaid expenses and deposits	6,476	25,576
	<u>3,649,355</u>	<u>3,021,446</u>
ADVANCES, with no fixed terms of repayment (note 2(a))		
Former shareholders and companies related to them	1,074,587	1,106,252
Other, Finch and Weston Road property	129,583	129,583
	<u>1,204,170</u>	<u>1,235,835</u>
Less portion included in current assets	379,879	
	<u>824,291</u>	<u>1,235,835</u>
FIXED ASSETS (note 3)	<u>440,703</u>	<u>447,451</u>
OTHER ASSETS (note 4)	<u>2,406</u>	<u>3,457</u>
	<u><u>\$4,916,755</u></u>	<u><u>\$4,708,189</u></u>

LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness (note 5)	\$1,111,227	\$1,111,618
Accounts payable and accrued liabilities	1,201,853	1,128,206
Current portion of long term debt	87,477	12,310
	<u>2,400,557</u>	<u>2,252,134</u>
LONG TERM DEBT (note 6)	<u>655,193</u>	<u>742,670</u>
DEBENTURES — SUBJECT OF LEGAL ACTIONS (notes 2(b) and 2(c))	<u>585,000</u>	<u>585,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 7)		
Issued		
1,255,421 Class A shares	3,655,814	3,655,814
CONTRIBUTED SURPLUS	24,040	24,040
DEFICIT	<u>(2,403,849)</u>	<u>(2,551,469)</u>
	<u>1,276,005</u>	<u>1,128,385</u>
	<u><u>\$4,916,755</u></u>	<u><u>\$4,708,189</u></u>

Legal proceedings (note 2)
Subsequent events (notes 2, 5, and 6)

Approved by the Board
Director — J. M. Boyd
Director — J. G. Roberts

Claiborne Industries Limited
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED SEPTEMBER 30, 1978

	1978	1977
Sales	\$8,737,350	\$8,234,410
Cost of sales	6,749,535	6,326,287
Gross profit	1,987,815	1,908,123
Expenses		
Selling, administrative and general	1,493,211	1,620,793
Provision for doubtful accounts	62,209	256,102
Interest on long term debt	138,006	147,372
Other interest	115,334	144,394
Depreciation	31,435	33,116
	1,840,195	2,201,777
Income (loss) before income taxes and extraordinary items	147,620	(293,654)
Income taxes	66,000	
Income (loss) before extraordinary items	81,620	(293,654)
Extraordinary items		
Reduction of income taxes resulting from application of prior years' losses	66,000	
Gain on retirement of debentures		11,106
	66,000	11,106
NET INCOME (LOSS)	\$ 147,620	\$ (282,548)
 EARNINGS (LOSS) PER SHARE		
Income (loss) before extraordinary items07¢	(.23¢)
Net income (loss)12¢	(.23¢)

Claiborne Industries Limited
CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED SEPTEMBER 30, 1978

	1978	1977
DEFICIT AT BEGINNING OF YEAR	\$2,551,469	\$2,268,921
Net income (loss)	147,620	(282,548)
DEFICIT AT END OF YEAR	<u>\$2,403,849</u>	<u>\$2,551,469</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED SEPTEMBER 30, 1978

	1978	1977
WORKING CAPITAL DERIVED FROM		
Operations	\$ 180,106	
Decrease in Advances	411,544	\$ 495,000
	<u>591,650</u>	<u>495,000</u>
WORKING CAPITAL APPLIED TO		
Operations		259,489
Reduction in non-current portion of long term debt	87,477	24,684
Advances, Finch and Weston Road property		129,583
Acquisition of subsidiary, including its working capital deficiency of \$123,061		123,894
Purchase of fixed assets	24,687	8,421
	<u>112,164</u>	<u>546,071</u>
INCREASE (DECREASE) IN WORKING CAPITAL	479,486	(51,071)
WORKING CAPITAL AT BEGINNING OF YEAR	769,312	820,383
WORKING CAPITAL AT END OF YEAR	<u>\$1,248,798</u>	<u>\$769,312</u>

Claiborne Industries Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rocamora Corporation Limited (Rocamora) and its subsidiary Braywood Corporation Limited (Braywood), each of which is wholly-owned.

(b) Advances (see note 2(a))

(c) Fixed assets

Depreciation is provided on a straight-line basis using the following annual rates:

Building	— 5%
Equipment	— 10%
Automotive	— 25% the first year and 20% thereafter

2. LEGAL PROCEEDINGS

(a) Advances

On January 16, 1978, the company commenced legal action against J. H. Black, J. E. Whiteside, B. Hill (herein referred to as "former shareholders") and companies related to them and against the Provincial Bank of Canada (herein referred to as "Provincial Bank") and former employees of the Provincial Bank in which the company seeks, amongst other things, recovery of:

(i) Advances in the principal amount of \$1,106,252 (being the amount of such Advances on January 16, 1978 before recoveries from the liquidation of security for the Advances of \$31,665).

(ii) An interest component, being an amount equal to the interest charges incurred by the company with respect to monies borrowed to finance the Advances, or in the alternative, interest at 15% on the Advances.

(iii) Non-recurring corporate expenses incurred in connection with the Advances.

(iv) General and other damages.

The company on advice of legal counsel considers that the Advances as made constituted a fraudulent transfer of funds and that interest would not necessarily be recoverable as such but would be, potentially, a component of any damage award.

If the legal action is unsuccessful, the company's recovery of the Advances may be limited to realizations available from the following security, the status of which as at September 30, 1978 is summarized as follows:

(i) Finch and Weston Road Property

The company's \$379,879 interest in a 10% first mortgage was realized subsequent to September 30, 1978, and the proceeds applied against Advances of \$129,583 made with respect to obligations on the property and the balance in reduction of the Advances to former shareholders and companies related to them.

Claiborne Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1978

2. LEGAL PROCEEDINGS (Cont'd)

(a) Advances (Cont'd)

(ii) Chattel Mortgage on Livestock

Certain of the livestock, which are the subject of a chattel mortgage to the company, were disposed of by the Provincial Bank which held other security interests in the livestock. The company realized \$495,000 in 1977 and \$31,665 in 1978 from these sales. The bank has undertaken to pay the company an additional \$67,335 from further sales but the company, on advice of legal counsel, has taken the position that it is entitled to all of the net proceeds (estimated to be \$250,000) from the sale of the subject livestock.

(iii) Marina Mortgages

The company holds a \$300,000 mortgage of leasehold on a marina property in the control of a receiver. Tenders on the property have been received under power of sale and although there are other claims against the proceeds of the sale, the company anticipates realization of, at a minimum, its principal amount of \$300,000.

(iv) Burlington Square

Because of prior charges against the Burlington Square property, there will be no recovery from the company's interest in the mortgage on that property.

(b) Series B debentures — subject of legal action (\$550,000)

The company has outstanding 9-1/2% Series B debentures which are stated to mature April 1, 1979, are convertible into Class A shares at \$2.75 per share, and are secured by a first floating charge on the assets of the company. The principal amount of debentures outstanding is \$795,000 of which \$245,000 are now held by subsidiaries of the company.

On February 5, 1979 the company instituted proceedings against the holders of the outstanding debentures, the Provincial Bank and others for, amongst other things a declaration that the debentures are fraudulent and void, an Order directing the holders to deliver up the debentures for cancellation and to repay all moneys paid by way of interest. The company is alleging in the action that the debentures were issued as part of a fraudulent scheme to raise moneys for the benefit of former shareholders and companies related to them and, indirectly, for the benefit of the Provincial Bank.

(c) Rocamora — Series A debentures (\$35,000)

Rocamora has not accrued nor paid interest on an aggregate principal amount of \$145,000 outstanding Series A debentures. The holders of these \$145,000 debentures commenced a legal action against Rocamora seeking payment of the principal amount of the debentures, interest and costs and, as well, claiming possession of the assets of Rocamora. Rocamora counterclaimed for a declaration that these debentures are fraudulent and void and subsequently the debenture holders discontinued the action with respect to \$60,000 of the debentures. Rocamora, on advice of legal counsel, believes that its counterclaim will be successful in respect of the remaining \$85,000. The company has, in its accounts, cancelled \$110,000 of such debentures by setting off the amount thereof against related assets as follows:

\$100,000 against a \$100,000 interest in the Burlington Square mortgage referred to in note 2(a); and
\$ 10,000 against a \$10,000 investment

Claiborne Industries Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1978

3. FIXED ASSETS

	1978			1977
	Cost	Accumulated depreciation	Net	Net
Land	\$150,796		\$150,796	\$150,796
Building	529,264	\$277,327	251,937	270,523
Equipment	103,059	94,948	8,111	6,715
Automotive	72,094	42,235	29,859	19,417
	<u>\$855,213</u>	<u>\$414,510</u>	<u>\$440,703</u>	<u>\$447,451</u>

4. OTHER ASSETS

	1978	1977
Debenture discount	\$ 2,405	\$ 3,456
Investment in Creative Patents and Products Limited	1	1
	<u>\$ 2,406</u>	<u>\$ 3,457</u>

5. BANK INDEBTEDNESS

	1978	1977
Cheques issued in excess of amounts on deposit	\$ 49,046	\$ 32,111
Demand bank loans	1,062,181	1,079,507
	<u>\$1,111,227</u>	<u>\$1,111,618</u>

A demand bank loan of \$960,000 is secured by a general security agreement under The Personal Property Security Act, an assignment under section 88 of the Bank Act, a collateral mortgage on the company's building, the assignment of an interest in the sale of the Finch and Weston Road property and a floating charge debenture of \$1,500,000 on all the assets of the company. This security also covers guarantees provided by the Provincial Bank in the amount of \$340,000 to certain of the company's suppliers.

Braywood's demand loan in the amount of \$102,181 is collaterally secured by a Series B debenture of the company of \$135,000.

Subsequent to September 30, 1978 the company realized its interest in the Finch and Weston Road property and \$300,000 was applied to reduce the company's indebtedness to the Provincial Bank. The guarantee provided by the Provincial Bank to certain of the company's suppliers was then increased to \$540,000.

Claiborne Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1978

6. LONG TERM DEBT

	1978	1977
The company		
Finance contracts	\$ 2,612	\$ 6,094
Subsidiary, Rocamora Corporation Limited		
10-1/2% Mortgage, due June 1, 1980, amortized over twenty-five years (see (i) below)	329,517	336,559
15% Mortgage, due November 1, 1978, amortized over twenty-five years (see (i) below)	145,541	147,327
Series A debentures, 11%, maturing January 13, 1981, secured by a first floating charge* on all assets of the subsidiary (see (ii) and (iii) below)	265,000	265,000
	742,670	754,980
Included in current liabilities	87,477	12,310
	<u>\$655,193</u>	<u>\$742,670</u>

*Subject to prior charge securing bank indebtedness

(i) Subsequent to September 30, 1978, Rocamora arranged to refinance its existing two mortgages with a \$475,000 replacement mortgage at 11-1/4% due February, 1984 to be amortized over twenty years. Accordingly, the current portion of long term debt and principal payments for the four years subsequent to September 30, 1979 are based upon the repayment terms of the replacement mortgage.

(ii) A further \$145,000 of these debentures are the subject of legal proceedings (see note 2(c)).

(iii) The accounts reflect \$225,000 of outstanding debentures issued by Rocamora in 1976 in exchange for debentures of the company in the amount of \$210,000. The documents relating to the exchange reflect agreement to issue \$235,000 of these debentures. The holder claims not to have agreed to this exchange and it may be that a claim will be asserted to re-establish the original company debentures.

Interest has been provided in the accounts at 11% on \$225,000 and payments on account of interest have been made.

Subsequent to September 30, 1978, \$75,000 of these debentures were purchased by the company at par.

Principal payments on long term debt for each of the four years subsequent to September 30, 1979 are as follows:

1980	—	\$ 11,085
1981	—	202,456
1982	—	13,737
1983	—	15,681

7. CAPITAL STOCK

The company applied for and received a Certificate of Continuance under the Canada Business Corporations Act dated March 15, 1978. Under this Act there is no limitation on the number of shares that may be issued. The previously issued common shares were designated as authorized and issued Class A shares. The Class A shares are convertible into Class B shares (non-voting) on a one for one basis provided that no more than 90% of the shares issued and outstanding shall be so converted into Class B shares.

Claiborne Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

YEAR ENDED SEPTEMBER 30, 1978

8. INCOME TAXES

At September 30, 1978 the companies have the following available, subject to assessment by taxation authorities, to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts:

Losses carried forward for tax purposes expiring:

1979	—	\$ 42,000
1980	—	47,000
1981	—	68,000
1982	—	112,000
		<u>269,000</u>

Excess of undepreciated capital cost over net book value of fixed assets	<u>135,000</u>
	<u><u>\$404,000</u></u>

9. OTHER INFORMATION

- (i) Remuneration of directors and senior officers (which under the Ontario Securities Act includes all directors and the five highest paid employees of which two are directors) was as follows:

	<u>1978</u>	<u>1977</u>
Directors and senior officers subsequent to June 17, 1977	\$186,000	\$ 51,000
Directors and senior officers prior to June 17, 1977		171,000
Total	<u>\$186,000</u>	<u>\$222,000</u>

- (ii) Legal fees of \$67,627 and accounting fees of \$18,685 were incurred in 1978 for professional services provided by firms of an officer and director, respectively.

10. COMPARATIVE FIGURES

The 1977 figures have been reclassified on the basis of 1978 financial statement presentation.

CLAIBORNE INDUSTRIES LIMITED

35 WINGOLD AVENUE,
TORONTO, ONTARIO
M6B 1P9
Telephone 781-5581

March 20, 1979

TO SHAREHOLDERS OF CLAIBORNE INDUSTRIES LIMITED

Dear Shareholder:

I am sending to you with this letter the consolidated Financial Statements of your Company for the year ended September 30, 1978 together with the auditors' report thereon and an interim unaudited statement for the three month period ending December 31, 1978. In the ordinary course, you would also be receiving at this time notice of an annual meeting of shareholders at which the year-end statements would be submitted for approval; it has, however, become necessary to delay the holding of that meeting pending disposition of our application to the Supreme Court of Ontario for an Order preventing The Provincial Bank of Canada (the "Bank") from voting shares for the election of directors at the meeting.

You will recall that prior to the last annual meeting of shareholders, the Supreme Court of Ontario, on application by the Company, which was opposed by the Bank, granted an injunction prohibiting the Bank from voting its shares at the meeting in respect of the election of directors. The remaining shareholders were then able to re-elect the present board of directors. Management had expected that the Bank would agree voluntarily not to vote its shares in respect of directors at the next annual meeting so that a further application to Court for an injunction could be avoided but the Bank has not agreed to this and, accordingly, fresh injunction proceedings have now been instituted seeking this time to prohibit the Bank from voting its shares at all future meetings of shareholders until the final disposition of the action which the Company took against the Bank and others in January 1978 (and which is described in Note 2(a) to the Financial Statements). It is hoped that this application will be disposed of next month so that a meeting of shareholders can be called in May at which time, in the normal course, management will propose once again that the present Board be re-elected.

The Corporation has been diligently prosecuting the action against the Bank but has experienced numerous frustrating delays, particularly in the obtaining of documentation from the Bank relating to the matters alleged in the proceedings, and it is now evident that the action will not reach trial in this calendar year.

On February 5th of this year a new proceeding was instituted against the Bank and against purchasers of the Series B Debentures of the Company for a declaration that those debentures, which were issued in May 1974 and which aggregate \$795,000 are fraudulent and void. This action was taken after our solicitors were able to obtain from the Bank on January 29, 1979 certain internal reports of the Bank which they had been endeavouring to obtain since June of 1978.

The various legal proceedings to which the Company is a party are, of course, involving it in substantial expense. You will note, however, that notwithstanding these expenses and other costs resulting from the taking of the moneys which are the subject of the claims against the Bank, the Company had a profit of \$147,630 in the last fiscal year. The Company estimates that these expenses and other costs for the year aggregated about \$360,000 made up as follows:

Interest expense on moneys borrowed to replace moneys taken (which are the subject of the Bank lawsuit)	\$229,116
Special legal and consulting fees paid to solicitors and chartered accountants in respect of the Bank lawsuit	86,844
Extraordinary audit fees paid to the Company's auditors in relation to the subject matter of the Bank lawsuit	16,028
Fees paid to a representative of the Bank appointed by the Bank to monitor expenses of the Corporation	26,400
Total	<u>\$358,388</u>

Rocamora Bros. Canada, the operating division of the Company, had a successful year with an increase in sales and a return to profitable operations. The favourable trend has continued in the quarter ending December 31, 1978 for which profits before tax amounted to approximately \$70,000 after providing for expenses and costs of the type described in the preceding paragraph. Sales projections for the balance of the year are encouraging and it is expected that the year's total sales will exceed those of the preceding year with a continued profit and positive cash flow after all expenses.

You will also note from the Financial Statements that the Company's interest in a mortgage on Finch and Weston Road in the amount of \$379,879 was realized during the year and that the Company was required to apply the proceeds to reduce its borrowings from the Bank and its obligations under a Series A Debenture of Rocamora Corporation. I expect the Company will also receive, during the current fiscal year, the further sum of about \$300,000 plus interest in respect of a mortgage it holds on property of the Toronto Island Park Marina.

If you have questions about the affairs of your Company or the matters mentioned in this letter I will be glad to discuss them with you. I am available by telephone.

Yours very truly,

John M. Boyd
President

Claiborne Industries Limited
CONSOLIDATED STATEMENT OF INCOME
THREE MONTHS ENDED DECEMBER 31, 1978
(unaudited)

	<u>1978</u>	<u>1977</u>
Sales	\$2,420,620	\$2,252,105
Cost of Sales	<u>1,891,436</u>	<u>1,758,612</u>
Gross Profit	<u>529,184</u>	<u>493,493</u>
Expenses		
Selling, administrative and general	364,632	343,852
Provision for doubtful accounts	29,009	11,403
Interest on long term debt	32,586	41,531
Other Interest	25,386	26,193
Depreciation	<u>7,485</u>	<u>5,554</u>
	<u>459,098</u>	<u>428,533</u>
Income before income taxes and extraordinary item	70,086	64,960
Income Taxes	<u>31,500</u>	<u>29,000</u>
Income before extraordinary item	38,586	35,960
Extraordinary item		
Reduction of income taxes resulting from application of prior periods' losses ..	<u>31,500</u>	<u>29,000</u>
NET INCOME	<u>\$ 70,086</u>	<u>\$ 64,960</u>
EARNINGS PER SHARE		
Before extraordinary item03¢	.03¢
After extraordinary item06¢	.05¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
THREE MONTHS ENDED DECEMBER 31, 1978
(unaudited)

	<u>1978</u>	<u>1977</u>
WORKING CAPITAL DERIVED FROM		
Operations	\$ 77,733	\$ 70,776
	<u>77,733</u>	<u>70,776</u>
WORKING CAPITAL APPLIED TO		
Reduction of long term debt	<u>2,975</u>	<u>8,276</u>
	<u>2,975</u>	<u>8,276</u>
INCREASE IN WORKING CAPITAL	74,758	62,500
WORKING CAPITAL AT BEGINNING OF PERIOD	<u>1,248,798</u>	<u>769,312</u>
WORKING CAPITAL AT END OF PERIOD	<u>\$1,323,556</u>	<u>\$ 831,812</u>

